PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
November 14, 2016
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of November, 2016

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation PETROBRAS

(Translation of Registrant s name into English)

Avenida República do Chile, 65

20031-912 Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ________

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ____________ No ____X____

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FINANCIAL

STATEMENTS

Quarterly Information

At September 30, 2016 and report on

review of Quarterly Information

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Petróleo Brasileiro S.A. Petrobras

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Petróleo Brasileiro S.A. Petrobras

We have reviewed the accompanying condensed consolidated statement of financial position of Petróleo Brasileiro S.A. Petrobras and its subsidiaries as of September 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015 and the condensed consolidated statements of cash flows and changes in shareholders equity for the nine-month periods ended September 30, 2016 and September 30, 2015. This interim financial information is the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

As discussed in Note 3 to the condensed consolidated interim financial information, during the third quarter of 2014, the Company wrote off US$ 2,527 million of overpayments on the acquisition of property plant and equipment incorrectly capitalized, according to testimony obtained from Brazilian criminal investigations.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of income, comprehensive income, cash flows (not presented herein) and changes in shareholders equity for the year then ended, and in our report dated March 21, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2015, is fairly stated in all material respects in relation to the consolidated statement of financial position from which it has been derived.

/s/

PricewaterhouseCoopers

Auditores Independentes

Rio de Janeiro, Brazil

November 10, 2016

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Petróleo Brasileiro S.A. Petrobras

Consolidated Statement of Financial Position

September 30, 2016 and December 31, 2015

(Expressed in millions of US Dollars, unless otherwise indicated)

Assets	**Note**	**09.30.2016**	**12.31.2015**	**Liabilities**	**Note**	**09.30.2016**	**12.31.2015**
Current assets				**Current liabilities**			
Cash and cash equivalents	6	21,582	25,058	Trade payables	15	5,339	6,373
Marketable securities	6	783	780	Finance debt	16	11,412	14,683
Trade and other receivables, net	7	5,222	5,803	Finance lease obligations	17.1	17	19
Inventories	8	8,511	7,441	Income taxes payable	20.1	200	105
Recoverable income taxes	20.1	628	983	Other taxes payable	20.1	2,965	3,365
Other recoverable taxes	20.1	2,055	1,765	Payroll and related charges		2,545	1,302
Advances to suppliers		188	108	Pension and medical benefits	21	848	655
Other current assets		1,734	1,338	Others		2,043	1,946
		40,703	43,276			25,369	28,448
Assets classified as held for sale	9.6	3,888	152	Liabilities on assets classified as held for sale	9.6	145	125
		44,591	43,428			25,514	28,573
Non-current assets				**Non-current liabilities**			
Long-term receivables				Finance debt	16	111,130	111,482
Trade and other receivables, net	7	3,684	3,669	Finance lease obligations	17.1	97	78
Marketable securities	6	91	88	Deferred income taxes	20.3	274	232

Judicial deposits	29.2	3,534	2,499	Pension and medical benefits	21	15,873	12,195
Deferred income taxes	20.3	3,556	6,016	Provisions for legal proceedings	29.1	3,939	2,247
Other tax assets	20.1	3,340	2,821	Provision for decommissioning costs	19	9,406	9,150
Advances to suppliers		1,434	1,638	Others		481	509
Others		3,221	2,446			141,200	135,893
		18,860	19,177				
				Total liabilities		166,714	164,466
				Shareholders equity			
Investments	10	3,991	3,527	Share capital (net of share issuance costs)	22.1	107,101	107,101
Property, plant and equipment	11	176,633	161,297	Change in interest in subsidiaries		327	321
Intangible assets	12	3,354	3,092	Profit reserves		52,388	57,977
		202,838	187,093	Accumulated other comprehensive (deficit)	22.2	(79,865)	(100,163)
				Attributable to the shareholders of Petrobras		79,951	65,236
				Non-controlling interests		764	819
				Total equity		80,715	66,055
Total assets		**247,429**	**230,521**	**Total liabilities and shareholder s equity**		**247,429**	**230,521**

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. Petrobras

Consolidated Statement of Income

September 30, 2016 and 2015

(Expressed in millions of US Dollars, unless otherwise indicated)

	Note	Jan-Sep/2016	Jan-Sep/2015	3Q-2016	3Q-2015
Sales revenues	23	60,002	75,167	21,693	23,179
Cost of sales		(40,940)	(52,325)	(14,506)	(16,484)
Gross profit		19,062	22,842	7,187	6,695
Income (expenses)					
Selling expenses		(3,037)	(2,954)	(1,027)	(1,087)
General and administrative expenses		(2,425)	(2,622)	(937)	(776)
Exploration costs	14	(1,333)	(1,435)	(572)	(630)
Research and development expenses		(424)	(553)	(151)	(157)
Other taxes		(454)	(2,413)	(188)	(861)
Impairment of assets	13	(5,122)	(419)	(4,710)	(419)
Other expenses, net	24	(5,536)	(3,125)	(3,003)	(1,063)
		(18,331)	(13,521)	(10,588)	(4,993)
Income before finance income (expense), share of earnings in equity-accounted investments and income taxes		731	9,321	(3,401)	1,702
Finance income		811	982	366	526
Finance expenses		(5,221)	(4,904)	(1,900)	(1,805)
Foreign exchange gains (losses) and inflation indexation charges		(1,733)	(3,236)	(659)	(1,947)
Net finance income (expense)	26	(6,143)	(7,158)	(2,193)	(3,226)
Share of results in equity-accounted investments	10.1	169	171	(43)	56
Income before income taxes		(5,243)	2,334	(5,637)	(1,468)
Income taxes	20.4	64	(1,877)	298	49

Net income (loss)		(5,179)	457	(5,339)	(1,419)
Net income (loss) attributable to:					
Shareholders of Petrobras		(5,592)	971	(5,380)	(1,062)
Non-controlling interests		413	(514)	41	(357)
Net income (loss)		(5,179)	457	(5,339)	(1,419)
Basic and diluted earnings (loss) per weighted-average of common and preferred share in U.S. dollars	22.3	(0.43)	0.07	(0.41)	(0.09)

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A.   Petrobras

Consolidated Statement of Comprehensive Income

September 30, 2016 and 2015

(Expressed in millions of US Dollars, unless otherwise indicated)

	Jan-Sep/2016	Jan-Sep/2015	3Q-2016	3Q-2015
Net income (loss)	(5,179)	457	(5,339)	(1,419)
Unrealized gains / (losses) on cash flow hedge highly probable future exports				
Recognized in shareholders equity	11,072	(22,131)	(674)	(13,988)
Reclassified to the statement of income	2,111	1,304	658	525
Deferred income tax	(4,483)	7,083	4	4,578
	8,700	(13,744)	(12)	(8,885)
Unrealized gains / (losses) on cash flow hedge others				
Recognized in shareholders equity	5	1	3	
	5	1	3	
Cumulative translation adjustments (*)				
Recognized in shareholders equity	9,834	(29,739)	(628)	(15,644)
Reclassified to the statement of income	1,428		1,428	
	11,262	(29,739)	800	(15,644)
Share of other comprehensive income (losses) in equity-accounted investments	347	(781)	(8)	(481)
Total other comprehensive income (loss):	20,314	(44,263)	783	(25,010)
Total comprehensive income (loss)	**15,135**	**(43,806)**	**(4,556)**	**(26,429)**
Comprehensive income (loss) attributable to:				
Shareholders of Petrobras	14,709	(43,418)	(4,604)	(26,167)
Non-controlling interests	426	(388)	48	(262)
Total comprehensive income (loss)	**15,135**	**(43,806)**	**(4,556)**	**(26,429)**

(*) Includes US$ 365(US$ 915 as of September 30, 2015) of cumulative translation adjustments in associates and joint ventures.

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A.   Petrobras

Consolidated Statement of Cash Flows

September 30, 2016 and 2015

(Expressed in millions of US Dollars, unless otherwise indicated)

	Jan-Sep/2016	Jan-Sep/2015
Cash flows from Operating activities		
Net income (loss)	(5,179)	457
Adjustments for:		
Pension and medical benefits (actuarial expense)	1,700	1,613
Share of results in equity-accounted investments	(169)	(171)
Depreciation, depletion and amortization	10,555	8,580
Impairment of property, plant and equipment, intangible and other assets	5,122	420
Exploration expenditures written off	966	1,050
(Gains) losses on disposal of assets, write-offs of assets, E&P areas returned and cancelled projects, net	267	274
Foreign exchange, indexation and finance charges	6,247	7,100
Deferred income taxes, net	(1,338)	1,011
Allowance (reversals) for impairment of trade receivables	479	141
Inventory write-down to net realizable value	305	258
Reclassification of cumulative translation adjustment CTA	1,428	
Decrease (Increase) in assets		
Trade and other receivables, net	801	64
Inventories	(300)	(379)
Judicial deposits	(493)	(568)
Other assets	(553)	(721)
Increase (Decrease) in liabilities		
Trade payables	(1,411)	(839)
Other taxes payable	164	1,890
Pension and medical benefits	(491)	(510)
Income taxes paid	(254)	(512)
Other liabilities	1,059	178
Net cash provided by operating activities	18,905	19,336
Cash flows from Investing activities		
Capital expenditures	(10,267)	(16,915)
Investment in investees	(120)	(81)

Proceeds from disposal of assets	739	215
Divestment in marketable securities	209	7,610
Dividends received	230	171
Net cash used in investing activities	(9,209)	(9,000)
Cash flows from Financing activities		
Investments by non-controlling interest	2	119
Financing and loans, net:		
Proceeds from financing	12,496	15,830
Repayment of principal	(20,925)	(11,682)
Repayment of interest	(5,308)	(4,889)
Net cash used in financing activities	(13,735)	(622)
Effect of exchange rate changes on cash and cash equivalents	563	(1,231)
Net decrease in cash and cash equivalents	(3,476)	8,483
Cash and cash equivalents at the beginning of the year	**25,058**	**16,655**
Cash and cash equivalents at the end of the period	**21,582**	**25,138**

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. Petrobras

Consolidated Statement of Changes in Shareholders Equity

September 30, 2016 and 2015

(Expressed in millions of US Dollars, unless otherwise indicated)

Share capital (net of share issuance costs)			Accumulated other comprehensive income (deficit) and deemed cost				Profit Reserves						
Share Capital	Share issuance costs	Change in interest in subsidiaries	Cumulative translation adjustment	Actuarial gains (losses) on defined benefit pension plans	Cash flow hedge - highly probable future exports	Other comprehensive income (loss) and deemed cost	Legal	Statutory	Tax incentives	Profit retention	Retained earnings	Shareholders equity attributable to shareholders of Petrobras	Non[illegible] inte[illegible]
107,380	(279)	148	(41,968)	(7,295)	(7,699)	(438)	7,919	2,182	720	55,602		116,272	
	107,101	**148**				**(57,400)**					**66,423**	**116,272**	
						(3)					**3**		
											971	971	(
			(29,865)		(13,744)	(780)						(44,389)	
107,380	(279)	148	(71,833)	(7,295)	(21,443)	(1,221)	7,919	2,182	720	55,602	974	72,854	
	107,101	**148**				**(101,792)**					**67,397**	**72,854**	

107,380	(279)	321	(71,220)	(7,362)	(20,288)	(1,293)	7,919	2,182	720	47,156		65,236	
	107,101	**321**				**(100,163)**					**57,977**	**65,236**	
						(3)					3		
		6										6	(
											(5,592)	(5,592)	
			11,249		8,700	352						20,301	
107,380	(279)	327	(59,971)	(7,362)	(11,588)	(944)	7,919	2,182	720	47,156	(5,589)	79,951	
	107,101	**327**				**(79,865)**					**52,388**	**79,951**	

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

1. The Company and its operations

Petróleo Brasileiro S.A. Petrobras is dedicated, directly or through its subsidiaries (referred to jointly as Petrobras , the Company , or Petrobras Group) to prospecting, drilling, refining, processing, trading and transporting crude oil from producing onshore and offshore oil fields and from shale or other rocks, as well as oil products, natural gas and other liquid hydrocarbons. In addition, Petrobras carries out energy related activities, such as research, development, production, transport, distribution and trading of all forms of energy, as well as other related or similar activities. The Company s head office is located in Rio de Janeiro RJ, Brazil.

2. Basis of preparation of unaudited interim financial information

The unaudited consolidated interim financial information has been prepared and is being presented in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The information is presented in U.S. dollars.

This unaudited interim financial information presents the significant changes in the period, avoiding repetition of certain notes to the financial statements previously reported. Hence it should be read together with the Company s annual financial statements for the year ended December 31, 2015, which include the full set of notes.

Petrobras has selected the U.S. Dollar as its presentation currency. The financial statements have been translated from the functional currency (Brazilian Real) into the presentation currency (U.S. Dollar) in accordance with IAS 21 The effects of changes in foreign exchange rates . All assets and liabilities are translated into U.S. dollars at the closing exchange rate at the date of the financial statements; income and expenses, as well as cash flows are translated into U.S. dollars using the average exchange rates prevailing during the period. All exchange differences arising from the translation of the consolidated financial statements from the functional currency into the presentation currency are recognized as cumulative translation adjustments (CTA) within accumulated other comprehensive income in the consolidated statements of changes in shareholders equity.

Brazilian Real x U.S. Dollar	**Mar 2016**	**Jun 2016**	**Sep 2016**	**Mar 2015**	**Jun 2015**	**Sep 2015**	**Dec 2015**
Quarterly average exchange rate	3.91	3.51	3.25	2.86	3.07	3.55	3.84
Period-end exchange rate	3.56	3.21	3.25	3.21	3.10	3.97	3.90

The Company s Board of Directors in a meeting held on November 10, 2016 authorized the issuance of these consolidated interim financial information.

2.1. Accounting estimates

The preparation of interim financial information requires the use of estimates and assumptions for certain assets, liabilities and other transactions. These estimates include: oil and gas reserves, depreciation, depletion and amortization, impairment of assets, pension and medical benefits liabilities, provisions for legal proceedings, dismantling of areas and environmental remediation, deferred income taxes, cash flow hedge accounting and allowance for impairment of trade receivables. Although our management uses assumptions and judgments that are periodically reviewed, the actual results could differ from these estimates.

3. The Lava Jato (Car Wash) Operation and its effects on the Company

In the third quarter of 2014, the Company wrote off US$ 2,527 of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years. For further information see note 3 to the Company s December 31, 2015 audited consolidated financial statements.

In preparing its financial statements for the period ended September 30, 2016, the Company considered all available information and did not identify any additional information in the investigations related to the Lava Jato (Car Wash) Operation by the Brazilian authorities or by the independent law firms conducting an internal investigation that could materially impact or change the methodology adopted to recognize the write-off taken in the third quarter of 2014. The Company will continuously monitor the investigations for additional information and will review its potential impacts on the adjustment made.

Petróleo Brasileiro S.A. Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

On July 15, 2016, the Ministry of Transparency, Oversight and Control (*Ministério da Transparência, Fiscalização e Controle MTFC*), the Public Prosecutor s Office (*Ministério Público Federal MPF*), the General Counsel for the Republic (*Advocacia Geral da União AGU*) and SBM Offshore, signed a leniency agreement through which SBM Offshore would pay compensation of US$ 342, of which US$ 328 will be reimbursed to Petrobras. Pursuant to the terms of this agreement, the Public Prosecutor s Office submitted the latter to the Fifth Chamber for Coordination and Review and Anti-Corruption of the Public Prosecutor s Office, which in turn decided on September 1, 2016 to request adjustments in certain clauses of this leniency agreement. The General Counsel for the Republic and the Public Prosecutor s Office has filed complaints challenging this decision, which are still under assessment.

Pursuant to a new leniency agreement, the Company recognized the amount of US$ 69 as compensation for damages relating to Lava Jato Operation (US$ 72 in 2015), of which US$ 24 has been transferred to the Company and US$ 45 were accounted for as receivable as of September 30, 2016 (received on November 07, 2016). These amounts were accounted for as other expenses, net.

To the extent that any of the proceedings resulting from the Lava Jato investigation involve new leniency agreements with cartel members or plea agreements with individuals pursuant to which they agree to return funds, Petrobras may be entitled to receive a portion of such funds and will recognize them as other income when received.

4. Basis of consolidation

The consolidated interim financial information includes the interim information of Petrobras, its subsidiaries, joint operations and consolidated structured entities.

There were no significant changes in the Company s basis of consolidation of entities in the nine-month period ended September 30, 2016, except for the disposal of the subsidiary Petrobras Argentina S.A. PESA, on July 27, 2016 as set out in note 9.2.

5. Summary of significant accounting policies

The same accounting policies and methods of computation were followed in these consolidated interim financial statements as those followed in the preparation of the annual financial statements of the Company for the year ended December 31, 2015.

6. Cash and cash equivalents and Marketable securities

Cash and cash equivalents

	09.30.2016	**12.31.2015**
Cash at bank and in hand	407	808
Short-term financial investments		
- In Brazil		
Single-member funds (Interbank Deposit) and other short-term deposits	2,564	922
Other investment funds	18	11
	2,582	933
- Abroad		
Time deposits	4,236	13,276
Automatic investing accounts and interest checking accounts	9,922	8,828
Treasury bonds	3,099	
Other financial investments	1,336	1,213
	18,593	23,317
Total short-term financial investments	**21,175**	**24,250**
Total cash and cash equivalents	**21,582**	**25,058**

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Petróleo Brasileiro S.A. Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

Short-term financial investments in Brazil comprise investment in funds, with maturities of three months or less, holding Brazilian Federal Government Bonds. Short-term financial investments abroad comprise time deposits with maturities of three months or less, highly-liquid automatic investing accounts, interest checking accounts and other short-term fixed income instruments, including U.S. Treasury bonds.

Marketable securities

			09.30.2016			**12.31.2015**
	In Brazil	**Abroad**	**Total**	**In Brazil**	**Abroad**	**Total**
Trading securities	783		783	779		779
Available-for-sale securities	2		2	5	1	6
Held-to-maturity securities	89		89	69	14	83
Total	**874**		**874**	**853**	**15**	**868**
Current	783		783	779	1	780
Non-current	91		91	74	14	88

Trading securities refer mainly to investments in Brazilian Federal Government Bonds. These financial investments have maturities of more than three months and are mostly classified as current assets due to their maturity or the expectation of their realization in the short term.

7. Trade and other receivables

7.1. Trade and other receivables, net

	09.30.2016	**12.31.2015**
Trade receivables		
Third parties	6,379	7,262
Related parties		
Investees (note 18.1)	535	533
Receivables from the electricity sector (note 7.4)	4,878	3,415

Petroleum and alcohol accounts -receivables from Brazilian Government	268	219
Other receivables	1,652	1,699
	13,712	13,128
Allowance for impairment of trade receivables	(4,806)	(3,656)
Total	**8,906**	**9,472**
Current	5,222	5,803
Non-current	3,684	3,669

7.2. Trade receivables overdue Third parties

	09.30.2016	**12.31.2015**
Up to 3 months	171	315
From 3 to 6 months	92	180
From 6 to 12 months	433	803
More than 12 months	2,598	1,735
Total	**3,294**	**3,033**

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Petróleo Brasileiro S.A. Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

7.3. Changes in the allowance for impairment of trade receivables

	09.30.2016	12.31.2015
Opening balance	3,656	3,372
Additions	619	2,060
Write-offs	(3)	(17)
Reversals	(116)	(788)
Cumulative translation adjustment	650	(971)
Closing balance	4,806	3,656
Current	1,983	1,690
Non-current	2,823	1,966

7.4. Trade receivables electricity sector (isolated electricity system in the northern region of Brazil)

					Allowance for impairment of trade receivables					
	As of 12.31.2015	Sales	Amounts received	Transfers (*)	Recognition	Reversals	Transfers (*)	Inflation indexation	CTA	As of 09.30.2016
Related parties (Eletrobras Group)										
AME (**)	1,996	365	(552)	669	(307)	22	(358)	201	411	2,447
Ceron(***)	285	47	(59)					32	58	363
Others	76	71	(76)		(17)	11		9	20	94
Subtotal	2,357	483	(687)	669	(324)	33	(358)	242	489	2,904
Third parties										
Cigás	143	497	(172)	(669)	(39)		358		28	146
Others	43	237	(268)		(53)	45			1	5
Subtotal	186	734	(440)	(669)	(92)	45	358		29	151

Trade receivables, net	2,543	1,217	(1,127)		(416)	78		242	518	3,055
Trade receivables Eletrobras Group	3,415	483	(687)	669				242	756	4,878
(-) Allowance for impairment of trade receivables	(1,058)				(324)	33	(358)		(267)	(1,974)
Subtotal	2,357	483	(687)	669	(324)	33	(358)	242	489	2,904
Trade receivables Third parties	773	734	(440)	(669)					131	529
(-) Allowance for impairment of trade receivables	(587)				(92)	45	358		(102)	(378)
Subtotal	186	734	(440)	(669)	(92)	45	358		29	151
Trade receivables Total	4,188	1,217	(1,127)					242	887	5,407
(-) Allowance for impairment of trade receivables	(1,645)				(416)	78			(369)	(2,352)
Trade receivables, net	2,543	1,217	(1,127)		(416)	78		242	518	3,055

(*) Cigás assigned receivables overdue from Amazonas Distribuidora de Energia to Petrobras, pursuant to the purchase and sale agreement of natural gas (upstream and downstream) entered into by Petrobras, Cigás and AME.
(**) Amazonas Distribuidora de Energia.
(***) Centrais Elétricas do Norte.

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The Company supplies fuel oil, natural gas, and other products to entities that operate in the isolated electricity system in the northern region of Brazil, such as thermoelectric power plants controlled by Eletrobras, state-owned natural gas distribution companies and independent electricity producers (*Produtores Independentes de Energia   PIE*). The isolated electricity system in the northern region of Brazil provides electricity distribution in areas not connected to the Brazilian National Interconnected Power Grid (*Sistema Interligado Nacional*) due to technical or economic reasons.

A significant portion of the funds used by those companies to pay for products supplied by the Company came from the Fuel Consumption Account (*Conta de Consumo de Combustível   CCC*), which provides funds to cover a portion of the costs related to the supply of fuel to thermoelectric power plants located in the northern region of Brazil (operating in the isolated electricity system). However, as a result of changes in the *CCC* regulations over time, principally relating to the Provisional Measure 579/2012 which significantly changed the sources of funds that were used to cover the cost of electricity generated in the Isolated Electricity System, funds transferred from the *CCC* to these electricity companies have not been sufficient for them to meet their financial obligations and, as a result, some have not been able to pay the total amount for the products supplied by the Company, increasing the default rate of those customers to the Company.

The Company put pressure on the negotiations with the state-owned natural gas distribution companies, the independent electricity producers (PIEs), other private companies and entities controlled by Eletrobras. As a result, on December 31, 2014, the Company entered into a debt acknowledgement agreement with subsidiaries of Eletrobras with respect to the balance of its receivables as of November 30, 2014. Eletrobras acknowledged it owed US$ 2,202 to the Company, of which US$ 1,889 were collateralized. This amount has been adjusted by the Selic interest rate (Brazilian short-term interest rate) on a monthly basis. Under this agreement, the first of 120 monthly installments was paid in February 2015 and these payments have continued.

In order to reduce the level of the defaults, which were deteriorating, on September 1, 2015 the Brazilian National Electricity Agency (Agência Nacional de Energia Elétrica   ANEEL) enacted the Normative Instruction 679 enabling the Company to receive funds directly from the CCC, as these funds would be paid directly from the CCC for products supplied in the prior month with a limit of 75% of the average payments made by the CCC in the previous three months.

The Company had expected that the abovementioned rule would have strengthened the financial situation of the companies in the electricity sector. However, this has not occurred and the level of these defaults increased. Accordingly, in 2015 the Company recognized US$ 564 as allowance for impairment of trade receivables (net of reversals) with respect to uncollateralized receivables outstanding as of December 31, 2015.

In the nine-month period ended September 30, 2016, the Company recognized an allowance for impairment of trade receivables (net of reversals) in the amount of US$ 338 mainly related to new supplies of: (i) fuel oil by legal enforcement (injunction) in the first quarter of 2016; and (ii) natural gas, mainly in the second and third quarter of 2016. Accordingly, the Company has adopted the following measures:

judicial collection of overdue receivables with respect to natural gas supplied to Amazonas Distribuidora de Energia (AME), Eletrobras and Cigás;

judicial collection of overdue receivables with respect to fuel oil supplied by the wholly owned subsidiary BR Distribuidora to companies of Eletrobras Group (Amazonas, Acre, Rondônia and Roraima);

partial suspension of gas supply;

suspension of fuel oil supply in installments, except when legally enforced; and

registration of entities controlled by Eletrobras as delinquent companies in the Brazilian Central Bank files and registration of AME as a delinquent company in ANEEL files.

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8. Inventories

	09.30.2016	12.31.2015
Crude oil	3,381	2,895
Oil products	2,698	2,206
Intermediate products	725	612
Natural gas and LNG (*)	97	253
Biofuels	188	158
Fertilizers	26	61
Total products	7,115	6,185
Materials, supplies and others	1,410	1,272
Total	**8,525**	**7,457**
Current	8,511	7,441
Non-current	14	16

(*) Liquid Natural Gas.

Inventories are presented net of a US$ 19 allowance reducing inventories to net realizable value (US$ 155 as of December 31, 2015), mainly due to changes in international prices of crude oil and oil products. In the nine-month period ended September 30, 2016, the Company recognized as cost of sales a US$ 305 allowance charge (net of reversals) reducing inventories to net realizable value (US$ 257 in the same period of 2015).

A portion of the crude oil and/or oil products inventories have been pledged as security for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in the amount of US$ 1,977 (US$ 1,719 as of December 31, 2015), as set out in note 21.1.

9. Disposal of Assets

The Company s Business and Management Plan forecasts a dynamic portfolio of partnerships and divestments subject to market and business conditions during the negotiations, which can change in accordance with the ongoing Company s business analysis and also due to the external environment. Accordingly, the conditions to recognize assets and liabilities as held for sale are achieved only when the Board of Directors approves the disposal.

9.1. Termination of the contract for the sale of Bijupirá and Salema fields (BJS)

On February 26, 2016, Petro Rio S.A. terminated the contracts signed with the Company on July 1, 2015, for the sale of 20% interest in Bijupirá and Salema concessions (BJS) and in the Dutch joint operation BJS Oil Operations B.V. (BJSOO BV). Accordingly, the amounts related to these fields were reclassified from assets and liabilities held for sale back to property, plant and equipment (US$ 148) and to provision for decommissioning costs (US$ 126), respectively, plus interest.

Due to the aforementioned reclassification, the respective assets were depreciated based on their historical data and their recoverable amounts were reassessed. As a result, the Company recognized, in the first quarter of 2016, an impairment loss as set out in note 13.

9.2. Sale of Petrobras Argentina

On May 12, 2016, the Board of Directors approved the disposal of the Company s entire 67.19% interest in Petrobras Argentina PESA, owned through the subsidiary Petrobras Participaciones S.L. (PPSL), to Pampa Energía.

On July 27, 2016, pursuant to the disbursement of US$ 897 (still subject to price adjustments), the Company recognized a gain of US$ 207 on this sale, as other expenses, net. In addition, the amount of US$ 1,428 was reclassified from shareholders equity to the other expenses within income statement, reflecting the reclassification of cumulative translation adjustment resulting from the depreciation of Argentinian Peso against the U.S Dollar from the acquisition of this investment to its disposal (see note 22.2).

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On October 28, 2016, as expected, the Company concluded this transaction with the acquisition of 33.6% of the concession of Rio Neuquén in Argentina and 100% of Colpa Caranda asset in Bolivia for the amount of US$ 56, after adjustments relating to Colpa Caranda asset.

9.3. Disposal of distribution assets in Chile

On July 22, 2016, the Company signed a sale and purchase agreement with the Southern Cross Group for the sale of 100% of Petrobras Chile Distribución Ltda (PCD), held through Petrobras Caribe Ltda.

The estimated proceed from this deal is US$ 464, considering funds from distribution of cash surplus before the transaction closing, payments to be made by Southern Cross on the closing day and estimated price adjustments within 65 working days after closing.

Pursuant to this disposal approval by the Board of Directors, the respective assets were reclassified as held for sale and measured at their estimated exit price and, as a result, the Company recognized impairment charges as set out in note 13.1.1 (j).

The deal s completion is subject to certain customary conditions precedent established in the agreement and expected to occur in three or four months.

9.4. Disposal of interest in exploratory block BM-S-8

On July 28, 2016 the Board of Directors of Petrobras approved the disposal of the Company s 66% interest in the exploratory block BM S-8 to Statoil Brasil Óleo e Gás Ltda, which includes the Carará area located in the pre-salt of Santos Basin, for the amount of US$ 2.5 billion. The amount of US$ 1.25 billion (50%) will be received at the closing of this transaction and the remaining amount through contingent payments related to future events, such as the unitization agreement signing. The Brazilian Antitrust Regulator (*Conselho Administrativo de Defesa Econômica* CADE) and the Brazilian Agency of Petroleum, Natural Gas and Biofuels (*Agência Nacional de Petróleo, Gás Natural e Biocombustíveis*) ANP approved this transaction on September 8, 2016 and November 10, 2016, respectively.

9.5. Disposal of interest in Nova Transportadora do Sudeste (NTS)

On September 22, 2016, the Company s Board of Directors approved the sale of 90% interest in Nova Transportadora do Sudeste (NTS), after a corporate restructuring intended to concentrate the transportation assets of the southeastern region in NTS (Rio de Janeiro, Minas Gerais and São Paulo), to Brookfield Infrastructure Partners (BIP) and its affiliates, through a Private Equity Investment Fund (FIP) whose other shareholders are British Columbia Investment Management Corporation (BCIMC), CIC Capital Corporation (wholly-owned subsidiary of China Investment Corporation CIC) and GIC Private Limited (GIC).

This deal amounted to US$ 5.19 billion, of which US$ 3.55 billion correspond to a 90% interest in NTS and US$ 1.64 billion correspond to the NTS debt settlement with the Company s wholly-owned subsidiary PGT. FIP will subscribe convertible debentures issued by NTS to the replacement of this debt. The first installment, in the amount of US$ 4.34 billion (84% of the total amount), will be paid at the closing of the transaction, and the remaining amount (US$ 850) will be paid in the fifth year, bearing annual interests at a fixed rate, as established in the purchase and sale agreement.

The completion of the transaction is subject to Shareholder´s General Meeting approval and to certain usual conditions precedent, including approval by relevant regulators.

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9.6. Assets classified as held for sale

	E&P	Distribution	Gas & Power	09.30.2016 Total	12.31.2015 Total
Assets classified as held for sale (*)					
Cash and Cash Equivalents		197		197	3
Trade receivables		68		68	11
Inventories		63		63	
Investments		27		27	
Property, plant and equipment	416	186	2,870	3,472	138
Others		25	36	61	
Total	**416**	**566**	**2,906**	**3,888**	**152**
Liabilities on assets classified as held for sale (*)					
Trade Payables		69		69	
Finance debt					125
Provision for decommissioning costs		9		9	
Others		23	44	67	
Total		**101**	**44**	**145**	**125**

(*) As of September 30, 2016, the amounts mainly refer to assets and liabilities transferred by the disposal of Petrobras Chile Distribución LTDA (PCD), Nova Transportadora do Sudeste and Block BM-S-8.

10. Investments

10.1. Investments in associates and joint ventures

	Balance at	Investments	Share of	CTA	OCI	Dividends	Restructuring,	Balance at

	12.31.2015		**results in investments (*)**				**capital decrease and others**	**09.30.2016**
Petrobras Oil & Gas B.V. PO&G	1,545		44	(1)		(50)		1,538
Braskem S.A.	805		96	214	276	(26)		1,365
State-controlled natural gas distributors	251		52	52		(22)		333
Investees in Venezuela	218		(2)	2			(218)	
Guarani S.A.	194	70	(101)	49	72		(25)	259
Nova Fronteira Bionergia	119		22	27				168
Other petrochemical investees	45		12	10		(6)		61
Compañia Mega S.A. MEGA	45		16	(2)		(31)		28
Compañia de Inversiones de Energia S.A. CIESA	44		3	(4)		(1)	(42)	
UEG Araucária	43		4	9		(7)		49
Other associates	206	21	14	7	(1)	(21)	(52)	174
Other investees	12			2			2	16
Total	**3,527**	**91**	**160**	**365**	**347**	**(164)**	**(335)**	**3,991**

(*) Does not include US$ 9 related to PESA investees disposed of as set out in note 9.2.

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10.2. Investments in listed companies

	Thousand-share lot			Quoted stock exchange prices (US$ per share)		Market value	
	09.30.2016	12.31.2015	Type	09.30.2016	12.31.2015	09.30.2016	12.31.2015
Company							
Indirect subsidiary							
Petrobras Argentina S.A. (*)		1,356,792	Common		0.61		827
							827
Associate							
Braskem S.A.	212,427	212,427	Common	7.08	4.07	1,505	866
Braskem S.A.	75,762	75,762	Preferred A	7.74	7.07	586	536
						2,091	1,402

(*) Investment disposed of as set out in note 9.2.
The market value of these shares does not necessarily reflect the realizable value upon sale of a large block of shares.

Braskem S.A. Investment in publicly traded associate

Braskem s shares are publicly traded on stock exchanges in Brazil and abroad. As of September 30, 2016 the quoted market value of the Company s investment in Braskem was US$ 2,091 based on the quoted values of both Petrobras interest in Braskem s common stock (47% of the outstanding shares), and preferred stock (22% of the outstanding shares). However, there is extremely limited trading of the common shares, since non-signatories of the shareholders agreement hold only approximately 3% of the common shares.

Given the operational relationship between Petrobras and Braskem, at December 31, 2015, the recoverable amount of the investment for impairment testing purposes was determined based on value in use, considering future cash flow projections and the manner in which the Company can derive value from this investment via dividends and other distributions to arrive at its value in use. As the recoverable amount was higher than the carrying amount, no impairment losses were recognized for this investment.

The main assumptions on which cash flow projections were based to determine Braskem s value in use are set out in note 14 to the Company s consolidated financial statements for the year ended December 31, 2015.

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11. Property, plant and equipment

11.1. By class of assets

	Land, buildings and improvement	Equipment and other assets	Assets under construction (*)	Exploration and development costs (oil and gas producing properties)	Total
Balance at January 1, 2015	**8,035**	**97,996**	**52,943**	**59,756**	**218,730**
Additions	210	1,296	18,349	512	20,367
Additions to / review of estimates of decommissioning costs				4,147	4,147
Capitalized borrowing costs			1,768		1,768
Write-offs	(8)	(56)	(1,797)	(407)	(2,268)
Transfers	1,153	8,726	(16,477)	8,468	1,870
Depreciation, amortization and depletion	(468)	(6,374)		(4,596)	(11,438)
Impairment recognition	(238)	(3,837)	(3,008)	(5,220)	(12,303)
Impairment reversal		11	5	23	39
Cumulative translation adjustment	(2,584)	(23,869)	(14,173)	(18,989)	(59,615)
Balance at December 31, 2015	**6,100**	**73,893**	**37,610**	**43,694**	**161,297**
Cost	8,595	112,307	37,610	67,220	225,732
Accumulated depreciation, amortization and depletion	(2,495)	(38,414)		(23,526)	(64,435)
Balance at December 31, 2015	**6,100**	**73,893**	**37,610**	**43,694**	**161,297**
Additions	19	728	8,430	109	9,286
Additions to / review of estimates of decommissioning costs				(468)	(468)
Capitalized borrowing costs			1,279		1,279

Write-offs	(2)	(17)	(915)	(52)	(986)
Transfers (***)	565	3,265	(11,372)	4,173	(3,369)
Depreciation, amortization and depletion	(289)	(5,595)		(4,557)	(10,441)
Impairment recognition	(341)	(3,612)	(407)	(1,334)	(5,694)
Impairment reversal		494		145	639
Cumulative translation adjustment	1,225	10,412	5,169	8,284	25,090
Balance at September 30, 2016	**7,277**	**79,568**	**39,794**	**49,994**	**176,633**
Cost	10,408	127,400	39,794	78,250	255,852
Accumulated depreciation, amortization and depletion	(3,131)	(47,832)		(28,256)	(79,219)
Balance at September 30, 2016	**7,277**	**79,568**	**39,794**	**49,994**	**176,633**
Weighted average of useful life in years	40 (25 to 50) (except land)	20 (3 to 31) (**)		Units of production method	

(*) See note 28 for assets under construction by business area.
(**) Includes exploration and production assets depreciated based on the units of production method.
(***) Includes amounts transferred to assets held for sale as set out in note 9.
As of September 30, 2016, property, plant and equipment include assets under finance leases of US$ 58 (US$ 48 as of December 31, 2015).

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Notes to the financial statements

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11.2. Concession for exploration of oil and natural gas Assignment Agreement (Cessão Onerosa)

Petrobras and the Brazilian Federal Government entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in the pre-salt area limited to the production of five billion barrels of oil equivalent in up to 40 years and renewable for a further five years subject to certain conditions. As of September 30, 2016, the Company s property, plant and equipment includes the amount of US$ 23,045 related to the Assignment Agreement (US$ 19,158 as of December 31, 2015).

Petrobras has already declared commerciality in fields of all six blocks in the scope of this agreement: Franco (Búzios), Florim (Itapu), Nordeste de Tupi (Sépia), Entorno de Iara (Norte de Berbigão, Sul de Berbigão, Norte de Sururu, Sul de Sururu, Atapu), Sul de Guará (Sul de Sapinhoá) and Sul de Tupi (Sul de Lula).

The agreement establishes that the review procedures of the agreement will commence immediately after the declaration of commerciality for each area and must be based on reports by independent experts engaged by Petrobras and by the ANP. The review of the Assignment Agreement will be concluded after the assessment of all the areas.

If the review of the Assignment Agreement determines that the value of acquired rights is greater than initially paid, the Company may be required to pay the difference to the Federal Government, or may proportionally reduce the total volume of barrels acquired under the agreement. If the review determines that the value of the acquired rights is lower than initially paid by the Company, the Federal Government will reimburse the Company for the difference by delivering cash or bonds or equivalent means of payment, subject to budgetary regulations.

The formal review procedures for each block are based on costs incurred through the exploration stage and estimated costs and production levels included in the independent experts reports. The review of the Assignment Agreement may result in changes in: (i) the amount of the agreement; (ii) the total volume (in barrels of oil) to be produced; (iii) the term of the agreement; and (iv) the minimum percentages of local content.

Currently, the settlement form and the final amount to be established for this agreement are not defined. The beginning of negotiation with the Brazilian Federal Government still depends on the conclusion of the appraisals by independent experts engaged by both parties, and the issuance of the respective reports.

With respect to the negotiation with the Brazilian Federal Government, on October 21, 2016 the Company s Board of Directors approved the creation of the minority shareholders committee responsible for monitoring the agreement review process and providing support to the board decisions through opinions about related matters. This committee will be composed of two members nominated by the minority shareholders and an independent member with recognized expertise in technical-financial analysis of investment projects.

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12. Intangible assets

12.1. By class of assets

		Software			
	Rights and Concessions	Acquired	Developed in-house	Goodwill	Total
Balance at January 1, 2015	**3,592**	**119**	**432**	**366**	**4,509**
Addition	17	22	78		117
Capitalized borrowing costs			5		5
Write-offs	(163)		(2)		(165)
Transfers	71	6	11		88
Amortization	(23)	(33)	(97)		(153)
Impairment recognition	(32)				(32)
Cumulative translation adjustment	(1,024)	(34)	(137)	(82)	(1,277)
Balance at December 31, 2015	**2,438**	**80**	**290**	**284**	**3,092**
Cost	2,696	435	963	284	4,378
Accumulated amortization	(258)	(355)	(673)		(1,286)
Balance at December 31, 2015	**2,438**	**80**	**290**	**284**	**3,092**
Addition	6	10	42		58
Capitalized borrowing costs			4		4
Write-offs	(130)		(1)		(131)
Transfers	(3)	1	(1)	(25)	(28)
Amortization	(18)	(24)	(72)		(114)
Impairment recognition	(18)	(4)		(49)	(71)
Cumulative translation adjustment	440	13	54	37	544
Balance at September 30, 2016	**2,715**	**76**	**316**	**247**	**3,354**

Cost	2,922	523	1,196	247	4,888
Accumulated amortization	(207)	(447)	(880)		(1,534)
Balance at September 30, 2016	**2,715**	**76**	**316**	**247**	**3,354**
Estimated useful life in years	(*)	5	5	Indefinite	

(*) Mainly comprised of assets with indefinite useful lives, which are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment.

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13. Impairment

The Company s assets are tested for impairment on December 31, annually, or when there is an indication that their carrying amount may not be recoverable. During September 2016 such indication was identified for some assets due to changes in the Company s Business and Management Plan (2017-2021 BMP) which was finalized and approved during the third quarter. These changes included: decreased future capital expenditures which was driven by the company s desire to reduce current debt levels and optimize their investment portfolio, as well as adjustments in mid and long term assumptions, which are the basis of cash flow projections, mainly caused by changes in the Brazilian political/economic scenarios and a slower recovery of oil prices.

Additionally, the changes in the Brazilian economic and political environment also resulted in increases in discount rates as of September 30, 2016.

For 2015, impairment losses were mainly recognized in its fourth quarter pursuant to the annual tests based on the macroeconomic assumptions in the former 2015-2019 Business and Management Plan. Therefore, the Company is presenting the impairment losses for the year ended December 31, 2015 for comparative purposes.

13.1. Property, plant and equipment and intangible assets

For impairment testing purposes, the Company uses the value in use of its property, plant and equipment and intangible assets (individually or grouped into cash-generating units CGUs) as their recoverable amount. In measuring value in use the Company bases its cash flow projections on:

The estimated useful life of the asset or assets grouped into the CGU, based on the expected use of those assets and, considering the Company s maintenance policy;

Assumptions and financial budgets/forecasts approved by Management for the period corresponding to the expected life cycle of each different business; and

A pre-tax discount rate, which is derived from the Company s post-tax weighted average cost of capital (WACC).

The cash flow projections used to measure the value in use of the CGUs were mainly based on the following assumptions:

	2017	Long term Average
Average Brent (US$/bbl)	48	68
Average Brazilian Real (excluding inflation) Real /U.S. dollar exchange rate	3.46	3.36

As set out in note 5.2 to the Company s audited consolidated financial statements ended December 31, 2015, identifying cash-generating units (CGUs) requires management assumptions and judgment, based on the Company s business and management model.

Some events occurred in the third quarter of 2016, such as (i) changes in investment portfolio projections, concluded in the context of the 2017-2021 BMP, (ii) the approval of the disposal of 90% interest in subsidiary NTS, (iii) the decision to discontinue operations of Quixadá Biofuel Plant in the state of Ceará and (iv) the removal of support vessels relating to *Hidrovias* project from the Transportation CGU due to postponement and suspensions, which triggered the review of CGUs relating to Exploration and Production, Gas & Power, Biofuels and Transpetro s fleet of vessels, respectively. Accordingly, certain assets that were aggregated for these CGUs have changed as described below:

a) Exploration and Production CGUs

Crude oil and natural gas producing properties CGU: comprised of exploration and development assets related to crude oil and natural gas fields and groups of fields in Brazil and abroad. In September 2016, the aggregations of assets for *Fazenda Cedro* and *Lagoa Suruaca* groups, both located in *Espírito Santo,* were reviewed and impairment tests were run separately for those individual fields due to the discontinuation of a relevant shared infrastructure in the production process, as approved in 2017-2021 BMP. Despite the change in aggregation of assets for these CGUs, there were no material impairment losses or reversals recognized regarding these fields, amounting to US$ 4.

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b) Gas & Power CGUs

Natural gas CGU: comprises natural gas pipelines and natural gas processing plants, except for *Unidade de Fertilizantes Nitrogenados III* (UFN III) and *Unidade de Fertilizantes Nitrogenados* V (UFN V) which are assessed for impairment separately. In September 2016, the Board of Directors approved the disposal of interest in the subsidiary NTS and, as a consequence, its pipelines were removed from of this CGU since then and no impairment losses or reversals attributable to this change were recognized. For further information on disposal of NTS see note 9.5.

c) Biofuels CGU

Biodiesel CGU: an integrated unit of biodiesel plants defined based on the production planning and operation process, considering domestic market conditions, the production capacity of each plant, as well as the results of biofuels auctions and raw materials supply. Due to the decision to discontinue operations of Quixadá Biofuel Plant, as approved by the Board of Directors of the subsidiary Petrobras Biocombustível in September 2016, impairment test for this Biofuel Plant was run separately and the Company wrote-off US$ 28 as a result.

d) Transportation CGU

Transportation CGU: comprises assets relating to Transpetro s fleet of vessels. Recurrent delays in the construction of support vessels for transporting ethanol over the Tietê River led the management of the wholly-owned subsidiary Transpetro, in the third quarter of 2016, to terminate the construction contracts for a new group of support vessels in the scope of *Hidrovias* project. As a result, this project was postponed and its completed assets were reviewed and tested for impairment separately, and no impairment charges were recognized for them. However, impairment losses were recognized for the Transportation CGU as set out in note 13.1.1 (i).

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13.1.1. Impairment of property, plant and equipment and intangible assets

In September 2016, the Company tested certain assets and CGUs for impairment and impairment losses and reversals were recognized in the statement of income as follows:

	Carrying amount	Recoverable amount	Impairment (*) / (**)	Business segment	Comments
					Jan-Sep 2016
Assets or CGU by nature					
Producing properties: assets related to Oil and gas activities in Brazil (several CGUs)	11,272	9,367	1,829	E&P Brazil	item (a1)
Oil and gas production and drilling equipment in Brazil	917	64	853	E&P Brazil	item (b1)
Second refining unit in RNEST	2,488	1,708	780	RTM Brazil	item (c)
Suape Petrochemical Complex	1,099	480	619	RTM Brazil	item (d1)
Comperj	365		365	RTM Brazil	item (e1)
Fertilizer Plant UFN III	523	370	153	Gas & Power Brazil	item (f1)
Thermoelectric power generation plants	2,695	2,551	145	Gas & Power Brazil	item (g)
Araucária	197	57	140	Gas & Power Brazil	item (h)
Transpetro s fleet of vessels	1,751	1,645	106	RTM Brazil	item (i)
Distribution assets in Chile	562	464	98	Distribution Abroad	item (j)
Usina de Quixada CE	28		28	Biofuel, Brazil	
Others	308	253	10	Several Segments	
Total	**22,205**	**16,959**	**5,126**		
					Jan-Dec 2015* **
Producing properties: assets related to E&P activities in Brazil (several CGUs)	21,251	12,139	8,653	E&P Brazil	item (a2)
Comperj	1,586	234	1,352	RTM Brazil	item (e2)
Oil and gas producing properties abroad	1,548	918	637	E&P Abroad	item (k)
Oil and gas production	750	243	507	E&P Brazil	item (b2)

and drilling equipment						
UFN III	935	434	501	Gas & Power	Brazil	item (f2)
Suape Petrochemical Complex	1,143	943	200	RTM	Brazil	item (d2)
Nitrogen Fertilizer Plant UFN-V	190		190	Gas & Power	Brazil	
Biodiesel plants	134	88	46	Biofuel	Brazil	
Others	341	156	210	Several segments		
Total	**27,878**	**15,155**	**12,296**			

(*) Impairment losses and reversals.

(**) Does not include impairment reversal on assets classified as held for sale of US$ 4 in 2016 (Impairment losses US$ 3 in 2015).

(***) For the nine-month period ended September 30, 2015, the Company recognized impairment losses in the amount of US$ 419. See note 13.1 to the interim financial information at September 30, 2015.

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a1) Producing properties in Brazil Jan-Sep 2016

Impairment losses of US$ 1,829 were recognized in the nine-month period ended September 30, 2016 for certain oil and gas fields in Brazil under E&P concessions. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 9.1% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the E&P business. The impairment losses were related primarily to the following fields and groups of fields: North group (US$ 1,221), *Uruguá* group (US$ 170), *Maromba* (US$ 86), *Bijupirá* and *Salema* (US$ 82), *Dourado* (US$ 77), *Papa-Terra* (US$ 72) and *Pampo* (US$ 67). These impairment losses were mainly due to the appreciation of the Brazilian Real against the U.S. Dollar, price assumptions review, as well a higher discount rate following the increase in Brazil s risk premium. In addition, an impairment reversal relating to *Centro Sul* group, amounting to US$ 415, was recognized due to lower operating expenses estimates based on a review of its fields operations, as set forth in 2017-2021 BMP, considering the decommissioning of a unit and replacing another unit with a new processing plant.

a2) Producing properties in Brazil 2015

In 2015, impairment losses of US$ 8,653 were recognized for certain oil and gas fields in Brazil under E&P concessions. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 8.3% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the E&P business. The impairment losses were related primarily to the following fields: *Papa-Terra (*US$ 2,234*), Centro Sul* group (US$ 1,179), *Uruguá* group (US$ 986), *Espadarte* (US$ 593), *Linguado* (US$ 489)*, CVIT Espírito Santo* group (US$ 375), *Piranema* (US$ 341), *Lapa* (US$ 317)*, Bicudo* (US$ 240), *Frade* (US$ 198), *Badejo* (US$ 190), *Pampo* (US$ 91) and *Trilha* (US$ 84). These impairment losses are mainly due to the impact of the decline in international crude oil prices on the Company s price assumptions, the use of a higher discount rate, as well as the geological revision of *Papa-Terra* reservoir.

b1) Oil and gas production and drilling equipment in Brazil Jan-Sep 2016

Impairment losses of US$ 853 were recognized in the nine-month period ended September 30, 2016 for oil and gas production and drilling equipment which were not directly related to oil and gas producing properties. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 11.9% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the oil and gas services and equipment industry. These impairment losses were mainly related to uncertainties over the ongoing hulls construction of the FPSOs P-71, P-72 and P-73, amounting to US$ 593 as set out in note 13.3.

b2) Oil and gas production and drilling equipment in Brazil 2015

In 2015, impairment losses of US$ 507 were recognized for oil and gas production and drilling equipment which were not directly related to oil and gas producing properties. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 9.2% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the oil and gas services and equipment industry. The impairment losses were mainly related to the planned idle capacity of two drilling rigs in the future and the use of a higher discount rate.

c) Second refining unit in RNEST Jan-Sep 2016

An impairment loss of US$ 780 was recognized in the nine-month period ended September 30, 2016 for the second refining unit in RNEST. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 8.7% p.a. (8.1% p.a. in 2015) post-tax discount rate (excluding inflation) derived from the WACC for the refining business, reflecting a specific risk premium for the postponed project. The impairment loss was mainly attributable to: (i) the use of a higher discount rate and (ii) a delay in expected future cash inflows to 2023 resulting from postponing the project, considering the completion of this project with the Company s owns capital resources as set forth in 2017-2021 Business and Management Plan.

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d1) Suape Petrochemical Complex Jan-Sep 2016

An impairment loss of US$ 619 was recognized in the nine-month period ended September 30, 2016 for *Companhia Integrada Têxtil de Pernambuco S.A. CITEPE* and *Companhia Petroquímica de Pernambuco S.A. PetroquímicaSuape*. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.5% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the petrochemical business. The impairment loss was mainly attributable to lower market projections and the appreciation of Brazilian real against the U.S. dollar.

d2) Suape Petrochemical Complex 2015

In 2015, an impairment loss of US$ 200 was recognized for *Companhia Integrada Têxtil de Pernambuco S.A. CITEPE* and *Companhia Petroquímica de Pernambuco S.A.   PetroquímicaSuape*. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.2% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the petrochemical business. The impairment loss was mainly attributable to changes in market and prices assumptions resulting from a decrease in economic activity in Brazil, a reduction in the spread for petrochemical products in the international market and the use of a higher discount rate.

e1) Comperj Jan-Sep 2016

In the second quarter of 2016, a reassessment of this project confirmed its postponement until December 2020 (first refining unit), with continuous efforts to seek new partnerships to resumption the project. The construction of Comperj facilities related to natural gas processing plant (UPGN) will be continued, since they are part of the infrastructure for transporting and processing natural gas from the pre-salt layer in Santos Basin. The estimated costs and period of time to complete these facilities constructions were revised and, therefore, the Company recognized US$ 365 as impairment charge of the project remaining balance as of September 30, 2016.

e2) Comperj 2015

In 2015, an impairment loss of US$ 1,352 was recognized for refining assets of Comperj. Cash flow projections were based on: financial budgets/forecasts approved by Management, and; an 8.1% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the refining business reflecting a specific risk premium for the postponed projects. This impairment loss was mainly attributable to: (i) the use of a higher discount rate; (ii) the delay in expected future cash inflows resulting from postponing construction.

f1) Fertilizer Plant UFN III Jan-Sep 2016

An impairment loss of US$ 153 was recognized in the nine-month period ended September 30, 2016 for the fertilizer plant UFN III (*Unidade de Fertilizantes e Nitrogenados* III), located on *Três Lagoas* (state of *Mato Grosso do Sul*). Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 8.3% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the fertilizer business, reflecting a specific risk premium for the postponed projects. This impairment loss mainly relates to: (i) the use of a higher discount rate, (ii) the appreciation of Brazilian Real against the US Dollar.

f2) Fertilizer Plant UFN III 2015

In 2015, an impairment loss of US$ 501 was recognized for the fertilizer plant UFN III (*Unidade de Fertilizantes e Nitrogenados* III), located on *Três Lagoas* (state of *Mato Grosso do Sul*). Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.1% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the Gas & Power business, reflecting a specific risk premium for the postponed projects. The impairment losses were mainly related to: (i) the use of a higher discount rate; and (ii) the delay in expected future cash inflows resulting from postponing the project.

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g) Thermoelectric power generation plants Jan-Sep 2016

An impairment loss of US$ 145 was recognized in the nine-month period ended September 30, 2016 for thermoelectric power generation plants. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 5.5% p.a. (5.0% p.a. in 2015) post-tax discount rate (excluding inflation) derived from the WACC for the electricity industry. This impairment loss mainly relates to: (i) the use of a higher discount rate, (ii) a decrease in electricity dispatch projections and (iii) an increase in estimated production costs in the long run.

h) Araucaria Jan-Sep 2016

An impairment loss of US$ 140 was recognized in the nine-month period ended September 30, 2016 for *Araucária Nitrogenados S.A*. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.8% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the fertilizer business (6.6% p.a. in 2015). The impairment loss was mainly attributable to (i) the use of a higher discount rate, (ii) the appreciation of Brazilian Real against the U.S. Dollar and (iii) an increase in estimated production costs.

i) Transpetro s fleet of vessels Jan-Sep 2016

An impairment loss of US$ 106 was recognized in the nine-month period ended September 30, 2016 for the fleet of vessels. Cash flow projections were based on: financial budgets/forecasts approved by Management; and post-tax discount rates (excluding inflation) ranging from 4.3% p.a. to 9.05% p.a. (3.92% p.a. to 8.92% p.a. in 2015) derived from the WACC for the transportation industry, considering financial leverage and the respective tax benefits. This impairment loss mainly relates to: (i) group of support vessels of *Hidrovias* project that were moved from this CGU due to postponements and suspension of constructions projects and (ii) the use of a higher discount rate.

j) Distribution assets in Chile Jan-Sep 2016

Impairment loss of US$ 98 was recognized in the nine-month period ended September 30, 2016 for distribution assets in Chile, as the exit price (less costs to sell) of this disposal was lower than the respective carrying amount when reclassified as held for sale. For further information on disposal of distribution assets in Chile see note 9.3.

k) Producing properties abroad 2015

In 2015, impairment losses of US$ 637 were recognized in E&P assets abroad. Cash flow projections were based on: financial budgets/forecasts approved by Management; and 5.6% p.a. to 10.4% p.a. post-tax discount rates (excluding inflation) derived from the WACC for the E&P business in different countries. The impairment losses were mainly in producing properties located in the United States (US$ 448) and Bolivia (US$ 157), attributable to the decline in international crude oil prices.

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13.2. Impairment losses on equity-method investments

An impairment loss on equity-method investments in the amount of US$ 128 (US$ 550 in 2015) was recognized in the statement of income as share of earnings in equity-accounted investments, substantially attributable to the biofuels segment, mainly relating to the associated Guarani S.A (US$ 111) and the joint venture BSBIOS (US$ 14). This loss was primarily due to: (i) an increase in post-tax discount rate (excluding inflation) from 9.3% p.a. in 2015 to 10.2% p.a. in September 2016 and (ii) lower sugar prices forecasts. This loss partially comprises goodwill relating to the BSBIOS S.A. investee (US$ 14).

13.3. Construction of platform hulls by Ecovix and Enseada shipyards

The Company entered into contracts with the suppliers Ecovix-Engevix Construções Oceânicas S.A and Enseada Industria Naval S.A. for supplying eight hulls for the FPSOs P-66 to P-73 and for hulls conversion of four FPSOs (P-74 to P-77), respectively.

Considering the relevance of these assets in the context of the Business and Management Plan and due to the financial difficulties faced by the suppliers, escrow accounts relating to these projects were created in the last quarter of 2015 in order to ensure the ongoing services hired.

These escrow accounts comprised funds transferred in advance for payments to be made by the shipyards, restricted to the scope of the contracts and limited to their total balance. The deposits would be offset to the extent that services rendered or equipment delivered, with the remaining balance being reimbursed. At September 30, 2016, the Company had advances to these suppliers amounting to US$ 347.

This strategy was considered effective as the projects achieved significant progress up to September 2016, enabling the delivery of P-67 hull to shipyard in China for integration services, the recommence of the work in progress of P-69 hull also in China, the continuity of the work in progress of P-68 hull in Rio Grande shipyard, as well as the progress on priority activities for the conclusion of minimum scope of P-74 and P-76 hulls, delivering these units to shipyards in China for integration services and for setting up topsides.

During the third quarter of 2016, the Company reassessed the progress of the hulls project and the continuity of the specific accounts related to the projects. Consequently, the Company concluded that this strategy, which in its beginning avoided the work in progress discontinuation, was not effective as it was previously.

Accordingly, based on management judgement the Company wrote-off US$ 347 in the third quarter of 2016 regarding the remaining balance of advances to these suppliers in the context of the escrow accounts, and legal procedures to recover these receivables are being assessed.

Negotiations with Enseada

As part of strategy of ensuring the continuity of FPSOs P-75 and P-77 hulls construction, the Company approved the transfer of the contract entered into Enseada and the Chinese shipyard COSCO (Dalian) Shipyard Co., Ltd to its wholly-owned subsidiary Petrobras Netherlands B.V. (PNBV), resulting in the recognition of payables in the scope of this contract. As a result, the Company recognized a provision in the amount of US$ 103 within other expenses in the third quarter of 2016.

Considering the escrow accounts and the aforementioned payments, the Company eliminated any risk of P-74 to P-77 hulls non-deliver.

Negotiations with Ecovix

The Company is also negotiating debt acknowledgments relating to Ecovix debts with Chinese shipyards, with respect to P-69 and P-70 hulls. As a result, a provision in the amount of US$ 184 within other expenses was recognized in the third quarter of 2016.

Regarding the negotiations with Ecovix for delivering hulls of some platforms, there are risks related to the term of their transfer to the Company, despites the significant physical progress and the current continuity scenario of their constructions, and of topsides integration and set up. The Company is taking into account all measures in order to mitigate these risks.

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Due to uncertainties regarding the FPSOs P-71, P-72 and P-73 hulls construction, the Company also recognized impairment charges amounting to US$ 593 as set out in note 13.1.1 (b1). Impacts in the Company s production curve are not expected in case of the discontinuation of this work in progress, as the 2017-2021 Business and Management Plan includes other options and additional budget funds.

14. Exploration for and evaluation of oil and gas reserves

The exploration and evaluation activities include the search for oil and gas reserves from obtaining the legal rights to explore a specific area to the declaration of the technical and commercial viability of the reserves.

Changes in the balances of capitalized costs directly associated with exploratory wells pending determination of proved reserves and the balance of amounts paid for obtaining rights and concessions for exploration of oil and natural gas (capitalized acquisition costs) are set out in the following table:

Capitalized Exploratory Well Costs / Capitalized Acquisition Costs (*)	**09.30.2016**	**12.31.2015**
Property plant and equipment		
Opening Balance	5,201	7,000
Additions to capitalized costs pending determination of proved reserves	784	2,282
Capitalized exploratory costs charged to expense	(894)	(882)
Transfers upon recognition of proved reserves	(926)	(960)
Cumulative translation adjustment	1,084	(2,239)
Closing Balance	5,249	5,201
Intangible Assets	2,394	2,048
Capitalized Exploratory Well Costs / Capitalized Acquisition Costs	**7,643**	**7,249**

(*) Amounts capitalized and subsequently expensed in the same period have been excluded from this table.
Exploration costs recognized in the statement of income and cash used in oil and gas exploration and evaluation activities are set out in the following table:

Exploration costs recognized in the statement of income	**Jan-Sep/2016**	**Jan-Sep/2015**
Geological and geophysical expenses	299	334
Exploration expenditures written off (includes dry wells and signature bonuses)	966	1,050
Other exploration expenses	68	51
Total expenses	**1,333**	**1,435**

Cash used in :	**Jan-Sep/2016**	**Jan-Sep/2015**
Operating activities	324	385
Investment activities	845	2,178
Total cash used	**1,169**	**2,563**

15. Trade payables

	09.30.2016	**12.31.2015**
Third parties in Brazil	2,978	3,331
Third parties abroad	2,018	2,566
Related parties	343	476
Balance on current liabilities	**5,339**	**6,373**

16. Finance debt

The Company obtains funding through debt financing for capital expenditures to develop crude oil and natural gas producing properties, construct vessels and pipelines, construct and expand industrial plants, among other uses.

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The Company has covenants that were not in default at September, 30 2016 in its loan agreements and notes issued in the capital markets requiring, among other obligations, the presentation of interim financial statements within 90 days of the end of each quarter (not reviewed by independent auditors) and audited financial statements within 120 days of the end of each fiscal year. Non-compliance with these obligations do not represent immediate events of default and the grace period in which the Company has to deliver these financial statements ranges from 30 to 60 days, depending on the agreement. The Company also has covenants with respect to debt level in some of its loan agreements with the Brazilian Development Bank (*Banco Nacional de Desenvolvimento* BNDES).

A roll-forward schedule of non-current debt is set out as follows:

	Export Credit Agencies	Banking Market	Capital Market	Others	Total
Non-current					
In Brazil					
Opening balance at January 1, 2015		29,288	1,301	28	30,617
Additions (new funding obtained)		4,918	989		5,907
Interest incurred during the period		289			289
Foreign exchange/inflation indexation charges		3,001	80	2	3,083
Transfer from long-term to short-term		(2,389)	(149)	(4)	(2,542)
Cumulative translation adjustment (CTA)		(10,410)	(496)	(9)	(10,915)
Balance as of December 31, 2015		24,697	1,725	17	26,439
Abroad					
Opening balance at January 1, 2015	5,244	29,898	53,810	649	89,601
Additions (new funding obtained)	163	5,753	2,045		7,961
Interest incurred during the period	5	34	48	8	95
Foreign exchange/inflation indexation charges	442	1,342	(1,092)	56	748
Transfer from long-term to short-term	(767)	(4,183)	(5,770)	(45)	(10,765)
Cumulative translation adjustment (CTA)	(442)	(1,877)	(222)	(56)	(2,597)
Balance as of December 31, 2015	4,645	30,967	48,819	612	85,043
Total Balance as of December 31, 2015	**4,645**	**55,664**	**50,544**	**629**	**111,482**

Non-current					
In Brazil					
Opening balance at January 1, 2016		24,697	1,725	17	26,439
Additions (new funding obtained)		368			368
Interest incurred during the period		218			218
Foreign exchange/inflation indexation charges		(1,519)	47	1	(1,471)
Transfer from long-term to short-term		(2,000)	(64)	(1)	(2,065)
Cumulative translation adjustment (CTA)		4,541	345	3	4,889
Balance as of September 30, 2016		**26,305**	**2,053**	**20**	**28,378**
Abroad					
Opening balance at January 1, 2016	4,645	30,967	48,819	612	85,043
Additions (new funding obtained)		1,143	9,759		10,902
Interest incurred during the period	3	13	46	6	68
Foreign exchange/inflation indexation charges	(171)	(1,037)	(83)	(23)	(1,314)
Transfer from long-term to short-term	(716)	(1,459)	(10,145)	(37)	(12,357)
Transfer to liabilities associated with assets classified as held for sale			(302)		(302)
Cumulative translation adjustment (CTA)	169	740	(220)	23	712
Balance as of September 30, 2016	3,930	30,367	47,874	581	82,752
Total Balance as of September 30, 2016	**3,930**	**56,672**	**49,927**	**601**	**111,130**

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Current	**09.30.2016**	**12.31.2015**
Short-term debt	388	1,523
Current portion of long-term debt	9,222	11,500
Accrued interest	1,802	1,660
Total	**11,412**	**14,683**

16.1. Summarized information on current and non-current finance debt

Maturity in	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and onwards**	**Total (*)**	**Fair value**
Financing in Brazilian Reais (R$):	2,155	2,019	2,447	4,131	5,792	8,121	24,665	23,459
Floating rate debt	1,849	1,585	1,989	3,685	5,366	5,931	20,405	
Fixed rate debt	306	434	458	446	426	2,190	4,260	
Average interest rate	12.5%	14.5%	12.1%	11.3%	10.5%	9.7%	11.1%	
Financing in U.S.Dollars (US$):	2,814	5,217	8,678	14,901	9,698	38,685	79,993	77,713
Floating rate debt	1,400	3,752	7,735	11,496	5,712	9,190	39,285	
Fixed rate debt	1,414	1,465	943	3,405	3,986	29,495	40,708	
Average interest rate	4.0%	3.8%	3.5%	4.0%	4.6%	5.9%	5.0%	
Financing in R$ indexed to US$:	55	714	704	701	701	5,423	8,298	8,449
Floating rate debt	6	23	22	19	19	35	124	
Fixed rate debt	49	691	682	682	682	5,388	8,174	
Average interest rate	7.1%	7.0%	7.1%	7.0%	7.1%	7.0%	7.0%	
Financing in Pound Sterling (£):	46	36				2,229	2,311	2,114
Fixed rate debt	46	36				2,229	2,311	

Average interest rate	5.7%	5.5%				6.0%	6.0%	
Financing in Japanese Yen (¥):	52	102	102				256	260
Floating rate debt	52	102	102				256	
Average interest rate	0.6%	0.5%	0.4%				0.4%	
Financing in Euro ( ):	6	162	1,262	1,469	221	3,892	7,012	6,837
Floating rate debt	6	12	12	12	176		218	
Fixed rate debt		150	1,250	1,457	45	3,892	6,794	
Average interest rate	1.6%	3.5%	3.8%	3.8%	4.1%	4.4%	4.1%	
Financing in other currencies:		7					7	7
Fixed rate debt		7					7	
Average interest rate		14.0%					14.0%	
Total as of September 30, 2016	**5,128**	**8,257**	**13,193**	**21,202**	**16,412**	**58,350**	**122,542**	**118,839**
Average interest rate	7.6%	6.7%	5.3%	5.5%	6.8%	6.5%	6.3%	
Total as of December 31, 2015	**14,683**	**11,397**	**16,091**	**22,596**	**15,537**	**45,861**	**126,165**	**98,600**
Average interest rate	5.9%	6.4%	5.6%	5.8%	6.9%	6.7%	6.3%	

* The average maturity of outstanding debt as of September 30, 2016 is 7.33 years (7.14 years as of December 31, 2015).

The fair value of the Company s finance debt is determined primarily by quoted prices in active markets for identical liabilities (level 1), when applicable, amounting to US$ 49,755 as of September 30, 2016. When a quoted price for an identical liability is not available, the finance debt is fair valued by a discounted cash flow based on a theoretical curve derived from the yield curve of the Company s most liquid bonds (level 2), amounting to US$ 69,084 as of September 30, 2016.

The sensitivity analysis for financial instruments subject to foreign exchange variation is set out in note 31.2.

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16.2. Capitalization rate used to determine the amount of borrowing costs eligible for capitalization

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was the weighted average of the borrowing costs applicable to the borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. For the nine-month period ended September 30, 2016 the capitalization rate was 5.67% p.a. (4.99% p.a. for the same period in 2015).

16.3. Lines of credit

Company	Financial institution	Date	Maturity	Available (Lines of Credit)	Amount Used	Balance
Abroad						
Petrobras	JBIC	7/16/2013	12/31/2018	1,500		1,500
PGT BV	UKEF JPMORGAN	12/17/2015	12/22/2016	500	409	91
Total				**2,000**	**409**	**1,591**
In Brazil						
Petrobras	FINEP	4/16/2014	12/26/2017	79	55	24
PNBV	BNDES	9/3/2013	3/26/2018	3,043	656	2,387
Transpetro	BNDES	1/31/2007	Not defined	1,504	168	1,336
Transpetro	Banco do Brasil	7/9/2010	4/10/2038	49	21	28
Transpetro	Caixa Econômica Federal	11/23/2010	Not defined	101		101